



Don Nickles, Chairman
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Opening Statement of Chairman Don Nickles Budget Committee Hearing with CBO Director Douglas Holtz-Eakin January 27, 2004

This morning we'll hear testimony on CBO's Budget and Economic Outlook for the years 2005-2014. We're delighted that Dr. Holtz-Eakin is with us again. We look forward to his presentation before the committee.

For the information of our members, we have scheduled several hearings in a rather aggressive schedule, trying to comply with our statutory deadline of completing the budget markup by April 15th.

The House is going to be in recess for two weeks prior to that. We're going to be in recess one week prior to that. So we're going to have a fairly aggressive schedule, about a week faster than we did last year, to complete our work by the deadline.

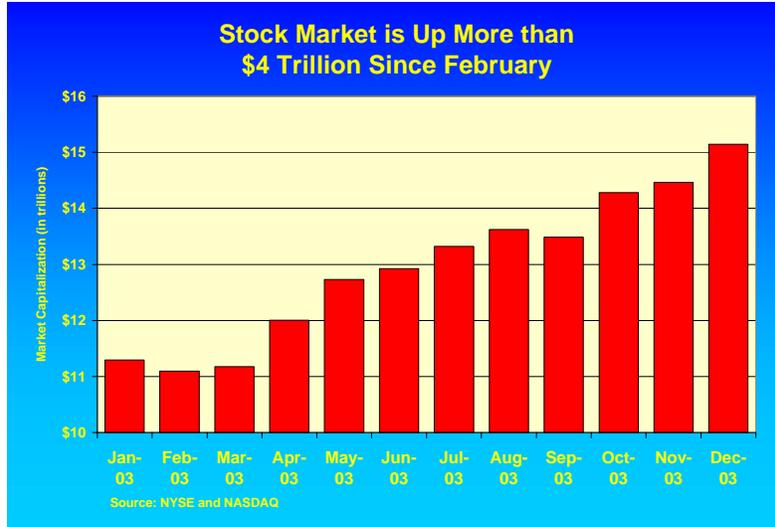
We actually have to be -- for the Senate, we have to complete by April the 9th, because we're in recess on April the 12th. So we're going to have a fairly aggressive schedule.

Next week we'll have OMB testify on Tuesday. Then we also have a hearing scheduled a week from tomorrow by Secretary Snow, and then following that we have a hearing scheduled with Secretary Thompson, Colin Powell, and also hope to have Defense and Homeland Security scheduled.

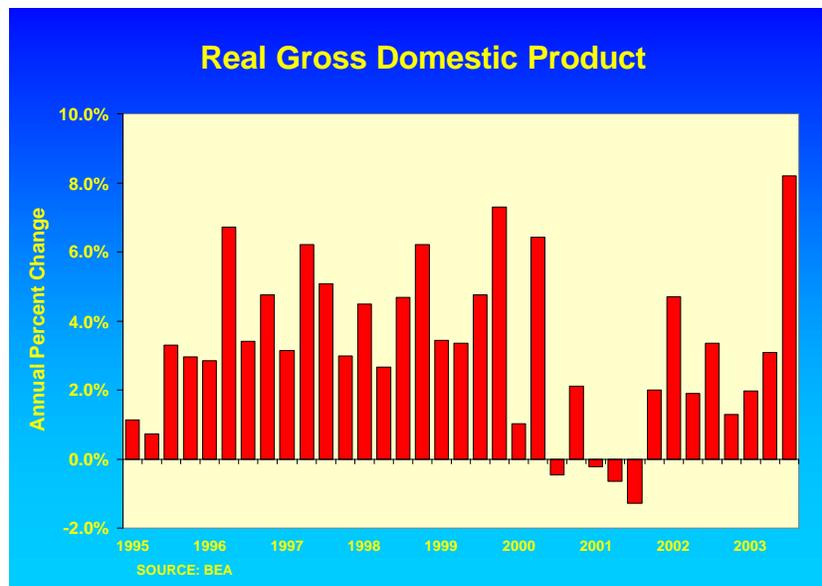
So we're going to have a fairly busy couple of months to have this completed, really by the end of March. And I want to thank my colleagues for their cooperation in that. And I also want to thank my colleagues for their tenor and the tone of the hearings that we had last year, as well as the mark-up on the floor. I think we were able to proceed senatorially, and I thank my colleague, especially my colleague from North Dakota.

So let me just make a couple of comments and I very much appreciate my colleagues. One, we did pass a stimulus package last year. I supported it. We passed a stimulus package and it worked. Just a couple of slides to show that.

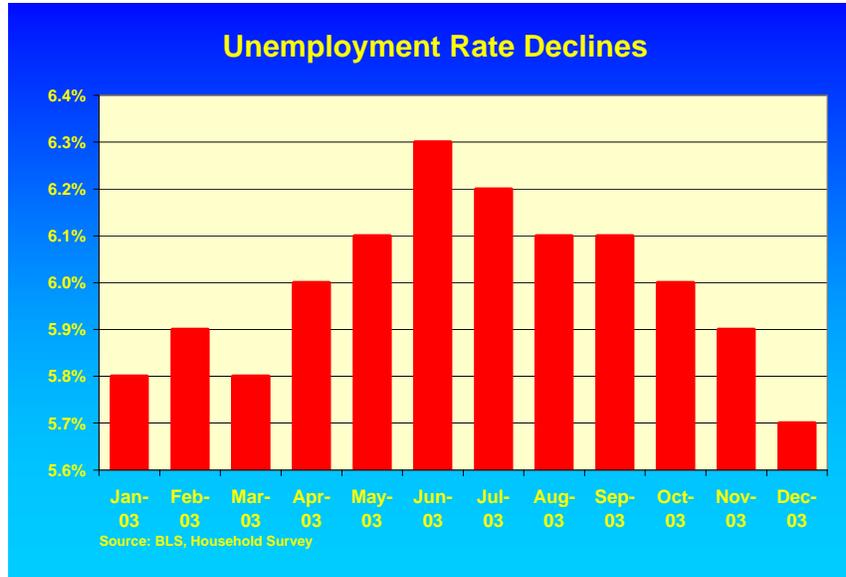
The stock market is up by several trillion, from about \$11 trillion to over \$15 trillion, since February of last year. That's a very significant increase. I believe the New York Stock Exchange is up about 25 percent and Nasdaq is up about 50 percent and combined to total about 35 percent. Our tax changes that we made, where we cut the rates on dividends and capital gains, worked. It did stimulate the economy.



The gross domestic product, which had its first decline in 2000 and then went further down in 2001, has shown significant appreciation, particularly the last couple quarters. And so the economy is starting to move, and that's very positive.



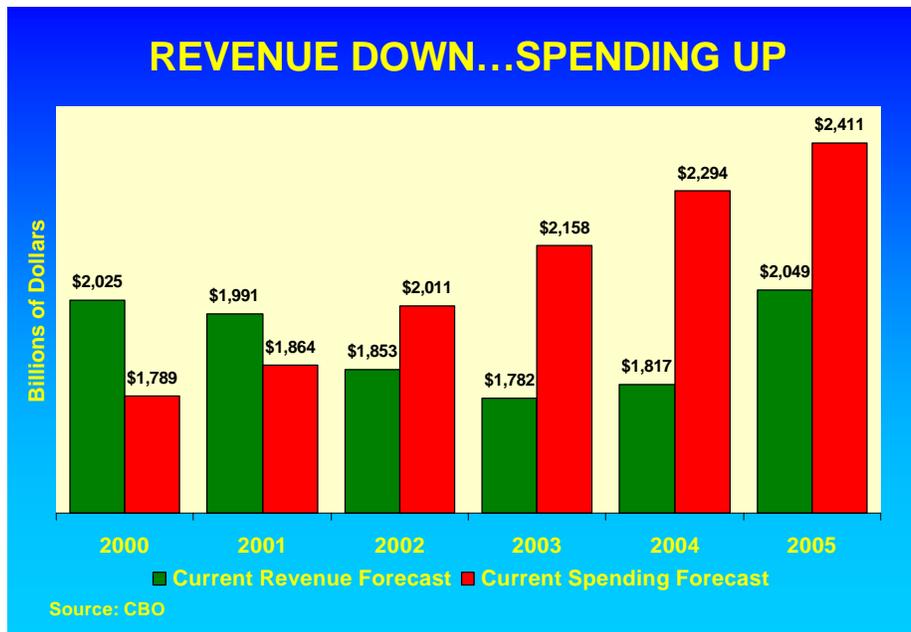
The unemployment rate has declined from a high of about 6.3 percent to 5.7 percent, so that's positive. Total employment has improved, and improved dramatically. If you use the Household Survey, which includes self-employed and others, the total employed has risen rather dramatically, particularly in the last three quarters. So we're seeing some positive signs.



I also agree with Senator Conrad: There are two reasons for this big deficit. One is that revenues have gone down.

And you might show that chart.

The revenues are in the green. Revenues in the year 2000 were over \$2 trillion. Now, last year, the year completed, 2003, they're at \$1.78 trillion. That's about a \$240 billion reduction and a reduction every year. It's the first time in history that's happened.



That did not happen solely because of the tax cuts. It happened primarily because the economy really did drop. It tanked in the year 2000. Nasdaq declined by about 50 percent in the year 2000.

It's kind of interesting reading these articles, when did the recession start? Well, if you look at the stock market, the recession started in March of 2000 because Nasdaq was about 4000. Nasdaq was at 2000 in December. So that's caused a precipitous decline in revenue. And then Senator Conrad's also correct: We've had a lot of new spending primarily to fight the war on terrorism.

We've had a total of \$242 billion in supplemental appropriations to fight the war on terrorism. Between the aid for New York and the Pentagon, the direct result of 9/11, that was about \$40 billion. And then we've had a supplemental last year of \$87 billion, the year before that, I think, \$91 billion, to fight the war in Afghanistan and Iraq. So a total of \$242 billion.

Now, there were some other things that were added to that. You know, we had about \$30 billion in emergency unemployment benefits and so on. But a very significant increase in spending, I believe, one-time spending.

Now, correct me if I'm wrong, Mr. Director, but under your snapshot, you assume that the \$87 billion that was in the supplemental last year would be ongoing throughout the next 10 years. That's not going to happen.

We may have some additional spending -- incremental spending, supplemental spending for our efforts in Iraq and Afghanistan, but I don't believe they'll be anywhere near the \$87 billion mark. So that's inflated in your baseline and will be reduced.

Also, the assumption that, well, all tax cuts that were enacted will be extended is false. I don't believe that's intended by this senator. We had some things that were done to stimulate the economy -- the accelerated bonus depreciation, which most people supported, I think had strong bipartisan support, but that was for a short period of time, to encourage investment in the next year or so, to get the economy going, to break out of that doldrum, to get some economic activity, to create some jobs -- and so we did that.

So I think you can paint lots of scenarios that are very bad. But I don't think that's going to happen.

Now, I do think -- and Senator Conrad's concluding comment -- hey, will we get the deficit down in half? It's very much this senator's intention to do that and more. And so, we'll see if we can't work together to do it.

I also want to agree with Senator Conrad, long term, there are serious problems, and particularly demographically when you look at Medicare, and we added to that last year when we passed the prescription drug bill. My guess is the cost of that will greatly exceed expectations, and I'll ask Director Holtz-Eakin about that in a little bit.

But long-term, that's a big, big, big challenge and we need to be able to address it. But I might mention that was supported by members of both parties. And I might mention, too, that there were amendments on the floor that would have had a much more expensive proposal than what we ended up passing. I believe 50 percent more was supported by a majority of members on the Democrat side.

So long-term, we have big challenges and we need to work together. They'll never be solved by one party or another. We need to work together to solve those. And I look forward to working with any of my colleagues that show an interest in trying to do that.

And this senator, for one, is willing to bite off as much as we can bite off this year. I realize it's an election year, but I am more than happy to work with my colleagues to try and fashion a package. I'd love to have a bipartisan budget this year. And I'd love to see us work together to solve some of these problems, both short-term and long-term.

So I thank my colleagues.

Unless colleagues are just dying to make an opening statement, I'd like to call upon Dr. Holtz-Eakin to make his remarks. And then, we'll alternate back and forth according to time of appearance for colleagues to ask questions. Is that agreeable?

Dr. Holtz-Eakin, thank you very much for your appearance this morning.